

DOCKET NOS. 98-0252/0335 (CONSOL.)  
STAFF EXHIBIT 31.0

SURREBUTTAL TESTIMONY

OF

DIANNA HATHHORN

ACCOUNTING DEPARTMENT

FINANCIAL ANALYSIS DIVISION

ILLINOIS COMMERCE COMMISSION

AMERITECH ILLINOIS

DOCKET NOS. 98-0252/98-0335 (CONSOL.)

JANUARY 30, 2001

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1

2 Witness and Exhibit/Schedule Identification

3 **Q. Please state your name and business address.**

4

5 A. My name is Dianna Hathhorn. My business address is 527 East Capitol  
6 Avenue, Springfield, Illinois 62701.

7

8 **Q. Have you previously filed testimony in this proceeding?**

9

10 A. Yes, I filed direct testimony in November 2000 and rebuttal testimony in  
11 January 2001.

12

13 **Q. What is the purpose of this testimony?**

14

15 A. I am presenting testimony regarding the following adjustments stated in  
16 Government and Consumer Intervenor's (hereinafter referred to as "GCI")  
17 rebuttal testimony of witness Ralph C. Smith: Pension Settlement Gains,  
18 Pension Settlement Gains-Ameritech Services, Pension Settlement Gain-  
19 Known 2000 Amounts, Telephone Plant Under Construction and Interest  
20 During Construction, Accumulated Deferred Income Taxes, and Software  
21 Capitalization (SOP 98-01).

Response to GCI witness Smith's Rebuttal Testimony (GCI Exhibit 6.2)

Pension Settlement Gains/Pension Settlement Gains-Ameritech Services

**Q. How is your adjustment in Schedule 20.01 similar to those proposed by GCI witness Smith in his Schedule E-3 and Schedule E-15?**

A. My schedule addresses Ameritech Illinois' (hereinafter referred to as "Company") original position on settlement gains, presented in Ameritech Illinois witness Timothy Dominak's direct testimony, and the additional pension settlement gains related to Ameritech Services, Inc., presented in Mr. Dominak's rebuttal testimony. These two pieces of my one adjustment are presented separately in Mr. Smith's Schedules E-3 and E-15, respectively. The purpose of both sets of schedules is to address the Company's complete removal of its 1999 pension settlement gains from the test year.

**Q. How does your methodology for computing pension settlement gains differ from Mr. Smith's methodology?**

A. My methodology for computing pension settlement gains involves a two-part procedure of 1) determining and recognizing a normal level of pension gains to be recognized in the test year and 2) amortizing, over a five year period, the difference between my calculated normal test year amount and the abnormally large 1999 gain. The methodology I propose produces a test

year amount that includes both the normal level of pension gains and one year's worth of amortization for the abnormal gain.

The methodology Mr. Smith proposes does not include my steps to determine the normal level of pension gains. His adjustment only reflects the amortization of the 1999 abnormally large pension settlement gain over five years.

Our adjustments also differ due to the fact my adjustment is isolated to the dollars used only for pension settlement gains, while Mr. Smith's adjustment is the net of the gains and the curtailment losses.

**Q. Why do you prefer your adjustment to those of Mr. Smith's?**

A. First, I believe Mr. Smith has inappropriately included amounts for pension curtailment losses in his adjustment. Mr. Smith has not presented any testimony supporting the inclusion of these amounts in his schedules. Second, my adjustment reflects a full year's worth of normal gain, since Company records indicate a historical trend of annual pension settlement gains, plus one year's amortization of the abnormal part of the 1999 gain. In my opinion, this more accurately reflects the activity of the test year.

Pension Settlement Gain-Known 2000 Amount

**Q. Have you reviewed the Pension Settlement Gain-Known 2000 Amount adjustment made by GCI witness Smith (GCI Exhibit 6.2, Schedule E-19)?**

**A.** Yes, I have. The regulatory issues overlap with the previously discussed pension settlement gains adjustments, except that this adjustment is for year 2000 activity.

**Q. Do you agree with the adjustment?**

**A.** No, I do not. The Pension Settlement Gain-Known 2000 adjustment brings year 2000 actual data into the revenue requirement, but only for this one transaction. Many other changes, both increases and decreases, have occurred in the year 2000, however, the revenue requirement does not reflect them. Since the year 2000 pension settlement gains activity is outside the test year, Staff does not adopt this adjustment and it is not reflected in Staff's revenue requirement.

Telephone Plant Under Construction and Interest During Construction

**Q. Have you reviewed the Telephone Plant Under Construction (hereinafter referred to as "TPUC") and Interest During Construction**

90 **(hereinafter referred to as “IDC”) adjustment made by GCI witness**  
91 **Smith (GCI Exhibit 6.1, Schedule E-13)?**  
92

93 A. Yes, I have. As I explained in my rebuttal testimony, the issues overlap with  
94 my original adjustment in my Schedule 6.02, which I revised and replaced  
95 with Schedule 20.02.  
96

97 **Q. In his rebuttal testimony, Mr. Smith maintains his original position of**  
98 **adjusting the TPUC test year balance to a 36 month average balance,**  
99 **and states that both he and Staff present valid reasons to adjust**  
100 **TPUC based upon an average (GCI Exhibit 6.2, p.49). Is your TPUC**  
101 **adjustment in Schedule 20.02 based upon an average?**  
102

103 A. No, it is not. My original adjustment did adjust TPUC downward using a 13  
104 month average. However, as I explained in my rebuttal testimony, I  
105 discovered that the TPUC balance inappropriately included an amount for  
106 IDC-earning Construction Work in Progress. Therefore, I revised my  
107 adjustment to TPUC based upon actual 12/31/99 data from the Company,  
108 not average data.  
109

110 **Q. Is it appropriate for the Commission to adopt both your adjustment**  
111 **and Mr. Smith’s?**

112

113 A. In my opinion, no. Adopting both adjustments would have the effect of  
114 correcting the TPUC balance twice, which would understate the test year  
115 balance. Therefore, only my adjustment is reflected in Staff's revenue  
116 requirement.

117

118 Accumulated Deferred Income Taxes

119 **Q. Have you reviewed the Accumulated Deferred Income Taxes**  
120 **adjustment made by GCI witness Smith (GCI Exhibit 6.2, Schedule E-**  
121 **17)?**

122

123 A. Yes, I have. However, since I was not a part of the conversations between  
124 the Company and Mr. Smith which lead to the adjustment nor have I reviewed  
125 the material which Mr. Smith has, I take no position on this adjustment.  
126 Therefore, it is not reflected in Staff's revenue requirement.

127

128 Software Capitalization (SOP 98-01)

129 **Q. Have you reviewed the Software Capitalization (SOP 98-01)**  
130 **adjustment made by GCI witness Smith (GCI Exhibit 6.2, Schedule E-**  
131 **10 Revised)?**

132



133 A. Yes, I have. Mr. Smith's revised adjustment corrects a very small error in the  
134 amount previously proposed by Mr. Smith and accepted by the Company.  
135 Since the original adjustment has been agreed to by the Company, and the  
136 change is immaterial (\$13,000), Staff has not updated the revenue  
137 requirement for this minor correction.

138

139 **Q. Does this conclude your surrebuttal testimony?**

140

141 A. Yes, it does.